

Report of the Auditor-General to Limpopo Provincial Legislature and Council on Greater Letaba Municipality

Report on the financial statements

Introduction

1. I have audited the financial statements of the Greater Letaba Municipality set out on pages ... to ..., which comprise statement of financial position as at 30 June 2014, the statement of financial performance, statement of changes in net assets, cash flow statement and the statement of comparison of budget information with actual information for the year then ended, as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA), Division of Revenue Act of South Africa, 2013 (Act No. 2 of 2013) (DoRA) and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-general's responsibility

3. My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the general notice issued in terms thereof and International Standards on Auditing. Those standards require that I comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the [consolidated and separate] financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

Basis for qualified opinion

Property, plant and equipment

6. In terms of SA Standards of GRAP 17 *Property, plant and equipment* an item of property plant and equipment should be recognised as an asset if probable that future economic benefits or service potential associated with the item will flow to the entity and the cost or fair value of the item can be measured reliably. The municipality accounted for land amounting to R6 723 160 in its accounting records of which I was unable to reliably determine how the municipality arrived at these values. Consequently, I was unable to determine the correct net carrying amount of land amounting to R21 919 710 as disclosed in note 9 to the financial statements as it was impracticable to do so.
7. I identified unexplained differences of R16 573 151 when recalculating the opening balance of accumulated depreciation. Consequently, accumulated depreciation is overstated by R16 573 151 and accumulated surplus understated by R16 573 151.

Consumer debtors

8. During 2013, the electricity accounts receivable balance of R12 972 850, as disclosed in note 9 to the financial statements, does not agree to the balance of R11 126 879 per the accounting records. The municipality did not reconcile the difference of R1 845 970 between the financial statements and the underlying accounting records. Consequently, the accounts receivable balance is overstated by R1 845 970. I was unable to determine the effect on the other account balances or classes of transactions contained in the financial statements. My audit opinion on the financial statements for the period ended 30 June 2013 was modified accordingly. My opinion on the current period's financial statements is also modified because of the possible effect of this matter on the comparability of the current period's figures.

Revenue

9. During 2013, I was unable to obtain sufficient appropriate audit evidence that management has properly charged and accounted for all revenue from property rates for the current and prior years due to the status of the accounting records. The billing system has not been updated with the supplementary valuation that was performed and a difference of R179 123 544 was identified between the billing system and the valuation roll. I was unable to confirm the property rates revenue by alternative means. Consequently, I was unable to determine whether any adjustment to property rates revenue stated at R6 418 553 in the financial statements was necessary. My audit opinion on the financial statements for the period ended 30 June 2013 was modified accordingly. My opinion on the current period's financial statements is also modified because of the possible effect of this matter on the comparability of the current period's figures.
10. The SA Standards of GRAP 9 *Revenue from exchange transactions* requires that revenue shall be measured at the fair value of the consideration received or receivable. Revenue on electricity sales was billed based on estimated readings by the municipality and as a result I am unable to determine the correctness of the revenue

balance of R10 504 272 (2013: R11 822 993) as disclosed in note 19 to the financial statements. Consequently I was unable to determine the impact of estimates billings on trade and other receivables.

Interest received - outstanding receivables

11. The municipality did not implement the approved council tariff policy correctly for the levying of interest on outstanding debts. An addition, the municipality did not charge interest at the correct rate as approved by council. Consequently, I was unable to determine the correctness of interest received on outstanding debt of R6 120 546 as disclosed in the financial statements as it was impracticable to do so.

Qualified opinion

12. In my opinion, except for the effects of the matters described in the basis for qualified opinion paragraphs, financial statements present fairly, in all material respects, the financial position of the Greater Letaba Municipality as at 30 June 2014 and its financial performance and cash flows for the year then ended, in accordance with the SA standards of GRAP, the requirements of the MFMA and the DoRA

Emphasis of matters

13. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Material impairment

14. As disclosed in note 6 to the financial statements, the municipality has impaired the amount of R66 925 177 on consumer debtors as a result of inadequate debt collection practices.

Restatement of corresponding figures

15. As disclosed in note 41 to the financial statements, the corresponding figures for 30 June 2013 have been restated as a result of an error discovered during 2014 in the financial statements of the municipality at, and for the year ended 30 June 2014.

Irregular expenditure

16. As disclosed in note 38 to the financial statements, irregular expenditure to the amount of R6 139 973 was incurred due to the contravention of supply chain management regulations.

Unauthorised expenditure

17. As disclosed in note 36 to the financial statements, unauthorised expenditure to the amount of R19 905 685 was incurred due to overspending of two votes.

Additional matter

18. I draw attention to the matter below. My opinion is not modified in respect of this matter.

Unaudited disclosure notes

19. In terms of section 125(2)(e) of the MFMA the municipality is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form part of the audit of the financial statements and accordingly I do not express an opinion thereon.

Unaudited supplementary information

20. The supplementary information set out on pages xx to xx does not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion thereon.

Report on other legal and regulatory requirements

21. In accordance with the PAA and the general notice issued in terms thereof, I report the following findings on the reported performance information against predetermined objectives for selected development priorities or objectives presented in the annual performance report, non-compliance with legislation as well as internal control. The objective of my tests was to identify reportable findings as described under each sub-heading but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

Predetermined objectives

22. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected development priorities or objectives presented in the annual performance report of the municipality for the year ended 30 June 2014:

Basic service delivery and infrastructure on pages x to x

23. I evaluated the reported performance information against the overall criteria of usefulness and reliability.
24. I evaluated the usefulness of the reported performance information to determine whether it was presented in accordance with the National Treasury's annual reporting principles and whether the reported performance was consistent with the planned development priorities. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's Framework for managing programme performance information (FMPPi).
25. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
26. The material findings in respect of the selected development priorities are as follows:

Basic service delivery and infrastructure

Reliability of reported performance information

27. The FMPPPI requires auditees to have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets. Significantly important targets were not reliable when compared to the source information or evidence provided. This was due to a lack of frequent review of the validity of reported achievements against source documentation.

Additional matter

28. I draw attention to the matter below:

Achievement of planned targets

29. Refer to the annual performance report on pages xxx to xxx for information on the achievement of planned targets for the year. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information for the selected programmes reported in paragraphs 27 of this report.

Compliance with legislation

30. I performed procedures to obtain evidence that the municipality had complied with applicable legislation regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA, are as follows:

Strategic planning and performance management

31. The municipality did not afford the local community at least 21 days to comment on the final draft of its integrated development plan before the plan was submitted to council for adoption, as required by *Municipal planning and performance management regulation* 15(3).
32. The annual performance report for the year under review does not include all performance targets of the municipality, as required by section 46 (1)(a) of the MSA.
33. The municipality did not have and maintain effective, efficient and transparent systems of financial and risk management and internal controls as required by section 62(1)(c)(i) of the MFMA.

Budgets

34. Expenditure was incurred in excess of the limits of the amounts provided for in the votes of the approved budget, in contravention of section 15 of the MFMA.

Financial statements

35. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA.
36. Material misstatements of non-current assets, current assets, revenue and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected, but the uncorrected material misstatements resulted in the financial statements receiving a qualified audit opinion.

Procurement and contract management

37. Sufficient appropriate audit evidence could not be obtained that two contracts were awarded in accordance with the legislative requirements and a procurement process which is fair, equitable, transparent and competitive, as they were not submitted for auditing.
38. Goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations as required by SCM regulation 17(a) and (c).
39. Bid specifications were not always drafted by bid specification committees which were composed of one or more officials of the municipality as required by SCM regulation 27(3).
40. Invitations for competitive bidding were not always advertised for a required minimum period of days, as required by SCM regulation 22(1) and 22(2).
41. Awards were made to bidders other than those recommended by the bid evaluation committee without ratification by the accounting officer, as required by SCM regulation 29(5)(b).
42. Contracts were awarded to bidders based on preference points that were not allocated and calculated in accordance with the requirements of the Preferential Procurement Policy Framework Act, 2000 (Act No. 5 of 2000) (PPPFA) and its regulations.
43. The prospective providers list for procuring goods and services through quotations was not updated at least quarterly to include new suppliers that qualify for listing, and prospective providers were not invited to apply for such listing at least once a year as per the requirements of SCM regulation 14(1)(a)(ii) and 14(2).

Expenditure management

44. Reasonable steps were not taken to prevent unauthorised expenditure, irregular expenditure as well as fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA.

Revenue management

45. An adequate management, accounting and information system which accounts for revenue was not in place, as required by section 64(2)(e) of the MFMA.
46. An effective system of internal control for revenue was not in place, as required by section 64(2)(f) of the MFMA.

Asset and liability management

- 47. An adequate management, accounting and information system which accounts for assets was not in place, as required by section 63(2)(a) of the MFMA.
- 48. An effective system of internal control for assets (including an asset register) was not in place, as required by section 63(2)(c) of the MFMA.

Internal control

- 49. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with legislation. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for qualified opinion, the findings on the annual performance report and the findings on non-compliance with legislation included in this report.

Leadership

- 50. The accounting officer did not adequately review the financial statements and the annual performance report prior to their submission for audit and thus a number of material misstatements were identified.
- 51. The municipality did not have sufficient monitoring controls to recognize and measure assets according approved asset policy and reconcile accounting records.
- 52. The municipality did not have sufficient monitoring controls to ensure adherence to the internal policies and procedures at a programme/objective level and for purposes of taking corrective action.

Financial and performance management

- 53. The accounting officer did not implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting
- 54. Management did not implement daily and monthly processing controls as a result performance report was not adequately reviewed for accuracy.
- 55. The municipality did not prepare accurate and complete financial and performance reports that are supported and evidenced by reliable information.
- 56. The municipality did not have adequate capacity in the asset management unit.
- 57. Compliance with applicable laws and regulations was not adequately reviewed and monitored.

Governance

- 58. The audit committee did not adequately perform its oversight and monitoring responsibility as the audit committee was not always invited to make presentations before council when ordinary council meetings were postponed and later reconvened.

59. There was a slow response in implementing the recommendations made by external auditors. Furthermore, there is a lack of commitment in ensuring that the internal audit recommendations are implemented.

Auditor - General

Polokwane

28 November 2014



AUDITOR - GENERAL
SOUTH AFRICA

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